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SUBJECT: NIGERIAN PRESIDENT ABOLISHES EXPORT INCENTIVES

1. (U) The federal government of Nigeria has withdrawn the Bona-fide Manufacturers Scheme, and Manufacturer-in-Bond Export Scheme - two incentives the government extended to local manufacturers to be more competitive due to their alleged abuse. The Bonafide Manufacturers Scheme allowed manufacturers of certain products to import inputs duty-free or at reduced duty. Under the Manufacture-In-Bond Scheme, raw materials may be imported duty-free for the production of export goods, on the basis of a bond issued by a recognized financial institution. The bond is discharged upon production of proof of export and repatriation of foreign exchange. The incentives are administered by the Nigeria Customs Service (NCS) under the supervision of the Ministry of Finance. Government sources claimed that Nigeria lost about N87 billion to malpractices in the administration of such import duty waivers and concessions in the last one and a half years. They also alleged that some importers posed as industrialists, in connivance with corrupt officials. Obasanjo cancelled all outstanding approvals under the two schemes and apparently opposes any import duty waivers on principle, aside from the potential abuse. The President has mandated the Federal Executive Council to re-appraise the schemes.

2. (SBU) The revocation of the schemes will throw many manufacturers' production plans into disarray and make some exports less competitive. The Pharmaceutical Manufacturers Group of the Manufacturers Association of Nigeria (PMG-MAN) has appealed to the President to rescind his decision to save the manufacturing sector from further distress. Similarly, MAN expressed shock over the decision, stating that it would cause confusion in the manufacturing sector.

3. (SBU) Though U.S. companies have not yet brought concerns to the Mission, most who have manufacturing concerns here, whether they export or not, use these schemes to import needed inputs. For example the MD of Nestle told the Commercial Counselor recently that these incentives as very important to his company here, though did not export much. Coca Cola and Proctor and Gamble have used Embassy advocacy in the past to help get needed import waivers.

4. (SBU) Comment: The constantly changing trade policy is a serious problem for domestic and foreign manufacturers alike. The high trade barriers make it impossible to do many kinds of manufacturing without waivers, which are in turn create a great opportunity for corruption. On the other hand, poor infrastructure makes manufacturing more expensive in Nigeria, leading to demands for protection. Thus manufacturers oppose the plan to move to a common ECOWAS tariff which would lower trade barriers. They prefer to manufacture behind high protective walls, with individual waivers. We can expect that some companies will be coming to us asking for advocacy to help restore their particular waivers. CAMPBELL